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UNCLAS BOGOTA 006060

SIPDIS

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TAGS: PGOV EFIN CO
SUBJECT: CONGRESS PASSES PENSION REFORM

Ref: Bogota 5017

¶1. Summary: On June 20, the Colombian Congress sent pension reform legislation to President Uribe for his signature. The reform, which required a constitutional amendment, will save the GOC over USD 17 billion over the next 50 years. The Uribe administration originally proposed a reform package twice the size, but exceptions, exemptions, and long grace periods cut the projected cost savings of the reform in half. There will be very little savings to the pension system over the next 5-6 years, as the 2010 grace period approaches, but the GOC expects financial institutions (including the IMF) will see the reform as an example of Colombia taking serious steps to reduce the fiscal deficit. Top finance ministry officials have suggested that further reforms might be necessary to address issues left out of this package, such as raising the retirement age. End summary.

¶2. Reftel gives background on the GOC's public pension system, which covers approximately 25% of Colombia's workers. In each of the past two years, the public pension shortfall has reached nearly USD 1.5 billion. The deficit was paid out through the GOC general fund. While the public pension deficit will continue to run high in the short-term, the long-term viability of the public pension system should improve as a result of the reform. During its recent review of Colombia's macroeconomic stability, the International Monetary Fund identified passing pension reform as a priority for the GOC.

What's in the Reform

¶3. The constitutional amendment on pension reform contains the following measures:

- After July 31, 2010, government funded pensions cannot exceed 25 minimum wages (approx. USD 4200 per month). This will likely affect only a small group of workers, including retirees from the Congress, courts, and the Fiscalia.
- Upon entry into force (most likely August of 2005), public employees cannot enter into social agreements to change the nature of their public pensions.
- Teachers are exempt from this pension reform.
- The President and members of the armed forces are allowed to keep their special pension plans.
- Special pension plans (other than those of teachers, the President, and the armed forces) will no longer be available to new retirees after July 31, 2010.
- Allows an additional transition period for workers who have a minimum of 15 years of service by July 31, 2010; their transition period will end in 2014.
- Eliminates an extra "14th month" pension payment (a sort of Christmas bonus) as of entry into force for new retirees.
- Allows workers who receive pensions of 3 minimum wages or less to continue receiving the "14th month" payments until July 31, 2011.

The 14th Month

¶4. The pension reform legislation was nearly scuttled in the Senate over the issues of the "14th Month" payment issued to nearly every retiree. This extra payment represents a sort of unofficial, and now expected, bonus to retirees. While all parties recognized that the GOC was not legally required to pay the "14th Month", senators were reluctant to take away the extra money from the poorest retirees. A compromise was reached that set up a transition period for poor retirees (those receiving pensions of 3 or fewer minimum wages) until July 31, 2010. After that date, the 14th Month will no longer be part of the public pension system.

¶5. Comment: The GOC is generally pleased that pension reform passed through Congress, albeit significantly reduced in size. According to the Minister of Social Protection, the GOC may attempt to present a second round of pension reform in 2006 or 2007. The second round would focus on raising the retirement age by two years and addressing the method of funding the pension system through employee contributions.